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**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY**

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November 1, 2000

EX PARTE

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

CC Docket No. 00-176

Dear Ms. Salas:

Yesterday, Michael Pelcovits and I of WorldCom met with Chairman Kennard and Kathryn Brown and Anna Gomez from his office. We discussed WorldCom's views on the importance of proper UNE pricing to support wide scale local entry across the country using UNE platform. In the course of our discussions, we referenced Verizon's pending long distance application for entry into Massachusetts in the above referenced docket.

The attached document was the basis for our discussion and was used in the meeting.

In accordance with section 1.1206(b)(2) of the Commission's rules, 47 C.F.R. § 1.1206(b)(2), an original and one copy of this memorandum are being filed with your office.

Sincerely,



Bradley Stillman

cc: Chairman William Kennard
Kathryn Brown
Anna Gomez

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UNE-P Price Squeeze Prevents Robust Local Competition

October 31, 2000

UNE-P Is Key to Widespread Local Residential Competition

- **UNE-Platform necessary for ubiquitous residential competition**
 - Cable/other facilities have limited reach, limited build-out
 - Non-UNE-P expansion slow, capital requirements high
 - Resale discount better than most states, but still a loser
- **Where UNE-P pricing is minimally acceptable (and other elements in place), WorldCom will enter:**
 - New York entered 12/98
 - Texas entered 4/00
 - Pennsylvania entered 8/00
 - Michigan and Illinois targeted for entry in near term
- **Price squeeze prevents local entry and robust competition in many states**

Comparison of Massachusetts UNE-P Pricing with States WorldCom Has Entered

	<u>MA--DTE</u>	<u>MA--Z-Tel</u>	<u>MA--10/13</u>	<u>NY</u>	<u>TX</u>	<u>PA</u>
Households (000)	2,376	2,376	2,376	5,973	5,117	3,398
Zone Density	100%	100%	100%	100%	100%	100%
<u>Revenue:</u>						
Local	\$26.65	\$26.65	\$26.65	\$32.74	\$22.97	\$22.42
Access	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.13</u>	<u>\$4.90</u>	<u>\$5.38</u>
Total Revenue (1)	\$30.99	\$30.99	\$30.99	\$36.87	\$27.87	\$27.80
<u>Telco:</u>						
Unbundled switch port	\$4.49	\$4.49	\$2.00	\$2.50	\$2.90	\$1.90
Unbundled loop	\$15.66	\$15.66	\$15.66	\$14.81	\$14.15	\$14.01
UNE switching & transport (2)	<u>\$21.68</u>	<u>\$14.57</u>	<u>\$10.50</u>	<u>\$10.60</u>	<u>\$4.17</u>	<u>\$5.02</u>
Total Telco (3)	\$41.83	\$34.72	\$28.16	\$27.91	\$21.22	\$20.93
Gross Margin (line/month)	(\$10.84)	(\$3.73)	\$2.83	\$8.96	\$6.65	\$6.87

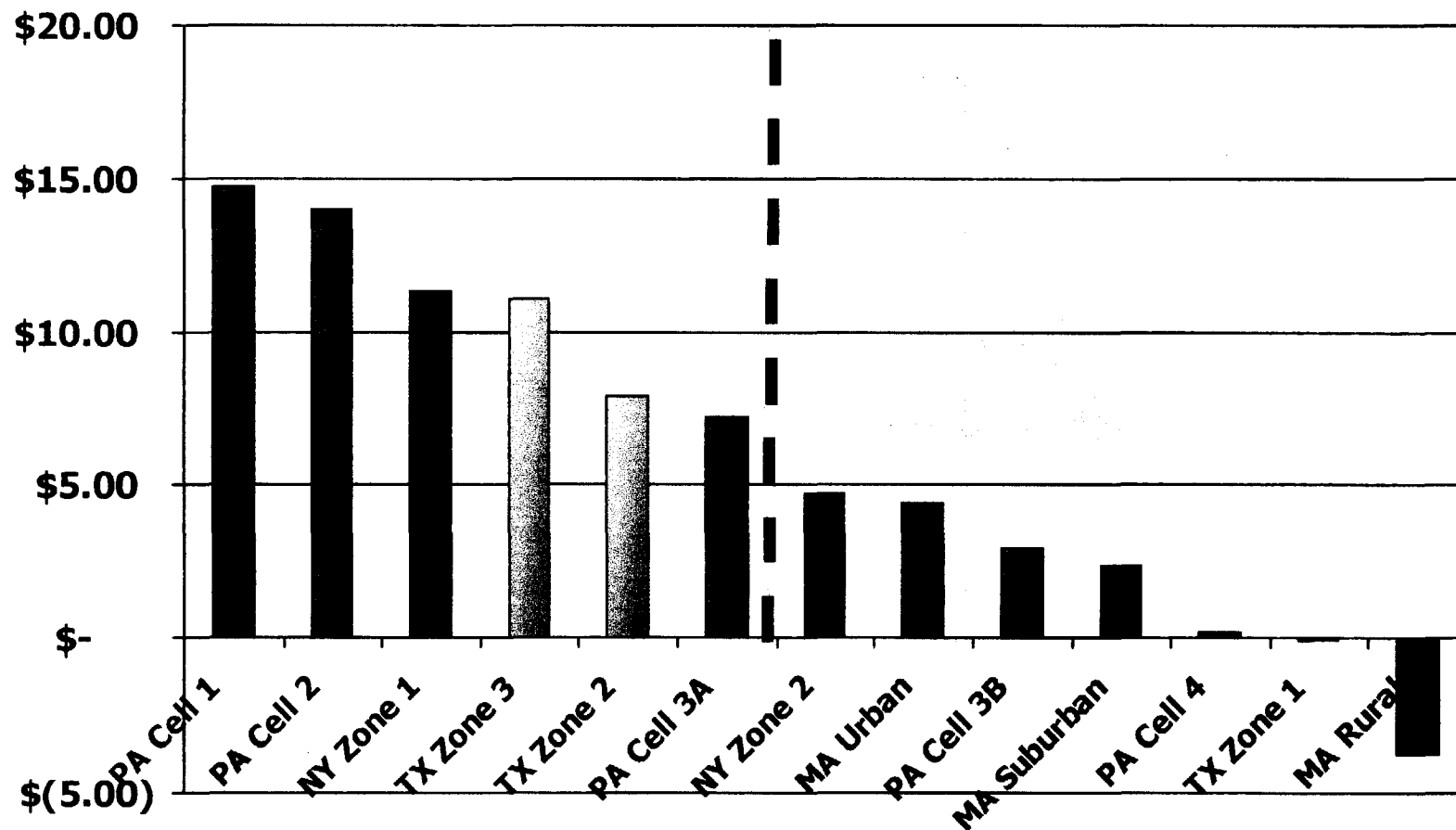
1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (2 in TX), and SLC.

2 Reflects MA DTE's Sept. 7, 2000 order which reduced charges on intra-End Office calls, and slight revision in call-flow methodology.

3 Does not include Non-Recurring charges (NRCs).

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Gross Margin by Zone in Massachusetts and States WorldCom Has Entered



MA Metro zone omitted as de minimis, as it contains only 2% of households in state.

Massachusetts (10/13/00) - Verizon (by zone)

	<u>MA--STATE</u>	<u>METRO</u>	<u>URBAN</u>	<u>SUBURBAN</u>	<u>RURAL</u>
Households (000)	2,376	48	665	1,497	166
Zone Density	100%	2%	28%	63%	7%
<u>Revenue:</u>					
Local	\$26.65	\$26.65	\$26.65	\$26.65	\$24.53
Access	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>
Total Revenue (1)	\$30.99	\$30.99	\$30.99	\$30.99	\$28.87
<u>Telco:</u>					
Unbundled switch port	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Unbundled loop	\$15.66	\$7.54	\$14.11	\$16.12	\$20.04
UNE switching & transport (3)	<u>\$10.50</u>	<u>\$10.41</u>	<u>\$10.50</u>	<u>\$10.50</u>	<u>\$10.50</u>
Total Telco (2)	\$28.16	\$19.95	\$26.61	\$28.62	\$32.54
Gross Margin	\$2.83	\$11.04	\$4.38	\$2.37	(\$3.67)

1 Includes line fee, usage, touch tone, 1 feature (call waiting @ \$2.84) and SLC. Reflects revenue in the Boston Area (~1/3 of Verizon-MA). Outside of this area, revenue would be \$2.12 lower or \$24.53. Therefore, revenue in the Suburban zone, and possibly the Urban zone, is overstated (as is the revenue in the state average).

2 Does not include \$0.19 NRC.

3 Reflects MA DTE's 09/07/2000 order, whereby switching applies only once on Intra-EO calls. Also reflects slight revision in call flow methodology.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

New York - Verizon (by zone)

	<u>State Average</u>	<u>Urban Zone 1</u>	→ <u>Rural Zone 2</u>
Households (000)	5,973	3,846	2,128
Distribution	100%	64%	36%
<u>Revenue:</u>			
Local	\$32.74	\$32.64	\$32.91
Access	<u>\$4.13</u>	<u>\$4.13</u>	<u>\$4.13</u>
Total Revenue (1)	\$36.87	\$36.77	\$37.04
<u>Telco:</u>			
Unbundled switch port	\$2.50	\$2.50	\$2.50
Unbundled loop	\$14.81	\$12.36	\$19.24
UNE switching & transport	<u>\$10.60</u>	<u>\$10.60</u>	<u>\$10.60</u>
Total Telco (2)	\$27.91	\$25.46	\$32.34
Gross Margin	\$8.96	\$11.31	\$4.70

1 Includes line fee, usage, 1 feature (Call Waiting @ \$5.19), and SLC. Reflects message rate product.

2 Does not include \$3.73 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Texas - SBC (by zone)

	<u>State Average</u>	<u>Rural Zone 1</u>	<u>Zone 2</u>	<u>Urban Zone 3</u>
Households (000)	5,117	1,061	2,398	1,657
Distribution	100%	21%	47%	32%
<u>Revenue:</u>				
Local	\$22.97	\$21.73	\$22.74	\$24.10
Access	<u>\$4.90</u>	<u>\$4.90</u>	<u>\$4.90</u>	<u>\$4.90</u>
Total Revenue (1)	\$27.87	\$26.63	\$27.64	\$29.00
<u>Telco:</u>				
Unbundled switch port	\$2.90	\$3.25	\$2.15	\$1.94
Unbundled loop	\$14.15	\$18.98	\$13.65	\$12.14
UNE switching & transport	<u>\$4.17</u>	<u>\$4.44</u>	<u>\$3.91</u>	<u>\$3.85</u>
Total Telco (2)	\$21.22	\$26.67	\$19.71	\$17.93
Gross Margin	\$6.65	(\$0.04)	\$7.93	\$11.07

1 Includes line fee, usage, 2 features (Call Waiting @ \$2.80, Caller ID @ \$6.15), above average LD, and SLC. Reflects unlimited local product for Texas.

2 Does not include \$30.29 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Pennsylvania - Verizon (by zone)

		Urban → Rural				
	<u>State Average</u>	<u>Cell 1</u>	<u>Cell 2</u>	<u>Cell 3 "A"</u>	<u>Cell 3 "B"</u>	<u>Cell 4</u>
Households (000)	3,398	226	618	1,364	184	1,007
Distribution	100%	7%	18%	40%	5%	30%
Revenue:						
Local	\$22.42	\$26.53	\$26.53	\$22.79	\$18.44	\$19.21
Access	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>	<u>\$5.38</u>
Total Revenue (1)	\$27.80	\$31.91	\$31.91	\$28.17	\$23.82	\$24.59
Telco:						
Unbundled switch port	\$1.90	\$1.90	\$1.90	\$1.90	\$1.90	\$1.90
Unbundled loop (3)	\$14.01	\$10.25	\$11.00	\$14.00	\$14.00	\$17.50
UNE switching & transport	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>	<u>\$5.02</u>
Total Telco (2)	\$20.93	\$17.17	\$17.92	\$20.92	\$20.92	\$24.42
Gross Margin	\$6.87	\$14.74	\$13.99	\$7.25	\$2.90	\$0.17

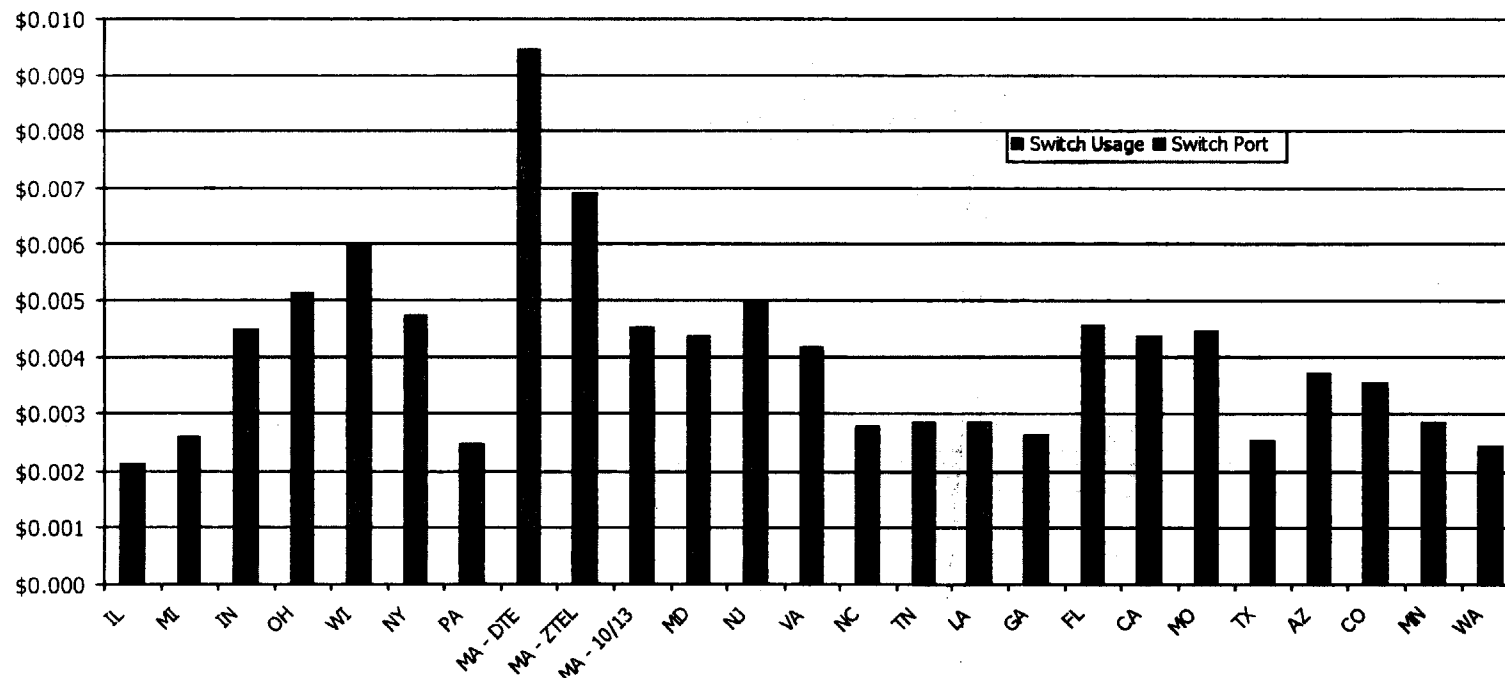
1 Includes line fee, usage, 1 feature (Call Waiting @ \$3.62), and SLC. Reflects Unlimited Band 1 product.

2 Does not include \$1.06 NRC.

3 The average loop rate corresponds to the tariffed rate to be effective 9/30/2000.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

UNE Costs Are Too High for Competitive Entry in Many States: Switching Rates in Largest States



- Rates per minute in BOC regions of the largest states have been calculated by dividing the estimated monthly switching, transport and port costs per line by total local and long distance minutes (originating & terminating).
- The port charge in IL includes unlimited switching at no extra charge; the effective switching rate is the result of other elements, including transport.
- Reflects MA DTE's 09/07/2000 order, whereby switching applies only once on Intra-EO calls. Also reflects slight revision in call flow methodology.